Outward Foreign Direct Investment from Emerging Economies: Trends, Drivers and Firm-Driven Home Government Policies

First draft. Not to be quoted.

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1 Introduction

Over the last decade outward foreign direct investment (OFDI) flows and stocks from the emerging economies expanded dramatically. This aggregate trend is reflective of the fact that at the firm level technological capabilities and market share of many TNCs from the emerging economies (ETNCs) have become progressively stronger. Samsung for example has become market leader in the production of the Dynamic Random Access Memories (DRAMs) and Mittal the leading manufacturer of steel.[1]

The significant increase of FDI from the emerging economies has given cause to revisit existing theoretical as well as policy constructs. Firstly, most theories of foreign direct investment explain flows of capital between developed economies, or from developed to developing economies. The acquisition of firms in developed countries by firms that originate from developing economies has added a new dimension to the understanding of OFDI flows. In addition, experience from foreign investment projects has contributed significantly to the development of emerging economies' TNC's revenues, technological capabilities and global market shares (see Monkiewicz, 1986; Hobday, 1997; Mirza, 2000; Sachwald, 2001; Mathews, 2002; UNCTAD, 2005).

The purpose of this paper is twofold: first, relying on the received literature and empirical evidence we suggest that for analytical purposes the outflow of FDI from emerging economies can meaningfully be divided into three distinct 'waves'. We discuss a set of strategic drivers of OFDI and identify their shifting relative importance throughout the period of these three waves. Second, we discuss how policy regimes towards FDI have shifted over the course of the three waves with special emphasis on contemporary home government measures for facilitating OFDI.

This paper thus examines emerging economy FDI drivers and home government policies that are complementary towards supporting the activities of ETNCs. The rest of the paper is organized as follows: In section two we divide the historical FDI outflows from emerging economies into three analytical 'waves'. Section three examines the drivers of OFDI. Section four analyzes the policy implications for home countries. Section five concludes.

[1] Although ArcelorMittal is registered in Luxembourg and headquartered in London its origin is in India.

2 Three waves of FDI from Emerging Economies

Albeit the numbers still favor heavily the developed economies, FDI from the emerging economies (OFDI) have become increasingly important from the 1990s. OFDI rose from US$335billion in 1995 to US$1.4trillion in 2005 (UNCTAD, 2006, pp 103-104). The number of emerging economies with OFDI stocks exceeding US$5billion increased from 6 in 1990 to 27 in 2005. Seven firms from the emerging economies were among the top 100 transnational corporations ranked by ownership of foreign asset stocks in 2006. The increase in OFDI has been driven by a variety of factors such as increasing wealth, reforms in trade and investment policies, regional integration, loosening capital controls, progressing industrialization, and build-up of firm-specific advantages of capabilities.

Our agenda here is not to review contemporary empirical trends of foreign direct investment from emerging economies. Such reviews are available elsewhere, e.g. UNCTAD (2006) and Gammeltoft (2008). Rather, our agenda is to probe beneath the quantitative surface to bring out a number of important qualitative changes in the composition and structural characteristics of outward investment from emerging economies. By comparing the older and the newer literature on OFDI and taking a longer historical perspective we suggest that for analytical purposes investment outflows from emerging economies can meaningfully be divided into three broad 'waves': the first from the 1960s to the mid 1980s, the second into the 1990s, and the third from the 1990s until the onset of the current global financial slowdown.

Previously, up into the 1980s, emerging economy firms mainly invested abroad to establish trade supporting networks and to access markets. Access to natural resources abroad and escape from bureaucratic restrictions at home were other prominent motives. Investments were mainly in other developing countries, especially those with short psychic distance (geographic, cultural, ethnic, institutional). ETNCs typically entered with minority ownership and engaged in greenfield investments and in many countries the companies most active in outward investment were state owned. When investing in developed economies they were mainly active in 'sunset' industries with less fierce competition from developed country counterparts.

From the 1990s onwards there were various shifts in the investment motives, modes of ownership, sectoral composition and typical destinations of OFDI: ETNCs were more frequently privately owned, even though a high degree of state ownership remains among the largest ETNCs, especially in natural resources. They more frequently took on majority ownership in outward investment projects and even though greenfield investments remain the dominant entry mode, international acquisitions became more frequent. Services became the dominant sector in OFDI (e.g., finance and business services) over manufacturing and natural resources. Even though the developing world remains the main destination of OFDI, investments became increasingly oriented towards developed rather than developing country destinations: reflecting also the cumulative increase in monopolistic advantages of ETNCs they increasingly invested to acquire technology, brands, and marketing capabilities in advanced economies. While a small number of countries remain responsible for the bulk of OFDI, there has also been a diversification in terms of the number of emerging and developing economies engaging in outward investments on a larger scale. Access to markets remains the dominant motive, especially where regional and South-South investments are concerned and efficiency seeking is the second most important motive (UNCTAD, 2006) but asset-seeking investments into developed economies became gradually important for the purpose of accessing technology, R&D and marketing capabilities, brands, distribution networks, and managerial and organizational competencies.

More generally, trends in outward investment from emerging and developing economies can be divided the aforementioned three broad ‘waves’. Any such abstraction and division of time periods into discrete waves must necessarily be rather crude given the huge national, industry and firm-level diversity in investment projects and flows. There are also many well-known limitations and inaccuracies associated with official FDI statistics: misclassification of capital flight and portfolio flows, misclassification of indirect outward investment by foreign affiliates, and other reporting and registration problems abound, and the problems are especially severe in developing-country statistics.

Nevertheless there seems to be sufficient justification to propose a third wave of OFDI as outlined in Table 1 – a wave qualitatively different from the two previous waves depicted in the received literature.

The received literature suggests that there have been two different waves of outward FDI from developing countries (Dunning et al., 1996, 1998; UNCTAD, 2005c): from the 1960s until early 1980s, and thereafter. The first-wave firms were driven mainly by market- and efficiency-seeking factors and investments were mainly directed towards other developing countries, most often neighboring countries. In the second wave, driven by a combination of pull and push factors, strategic-asset seeking also became a motive and investments into developed countries and developing countries outside the investor’s own region became more important. The first wave of FDI originated predominantly from Latin America where new TNCs emerged from Argentina, Mexico and Chile, followed by Brazilian, Colombian and Venezuelan competitors (Andreff, 2003). During a period, which otherwise emphasized industrialization strategies based on import substitution, Latin American TNCs internationalized on the basis of products that had met the needs of their growing domestic markets and outward FDI went primarily to neighboring developing countries with similar demand structures.

The second wave from the 1980s was dominated by Asian TNCs, spreading from Republic of Korea, Taiwan, Hong Kong, Singapore and thereafter Malaysia, Thailand, China, India and the Philippines, and accompanied Asian countries’ export oriented industrialization strategies. Outward FDI from Latin America was less prominent during this period. Asian TNCs expanded mostly in the fast growing foreign markets of other NIEs but they also outward invested to access cheap labor in developing countries that were less developed than their home countries.

In the 1990s a third wave of OFDI emerges. At this stage the largest Asian TNCs already competed with Western TNCs, invested into developed countries, and some countries were becoming net FDI exporters (South Korea, Hong Kong, Taiwan), a position traditionally reserved for developed countries (Andreff, 2003). The new features of investments flows in this wave were outlined above.

The three waves are summarized in Table 1. Each wave retains most of the features from the previous one but some features are added and others revised. It is also important to note that the waves are broad, ‘ideal typical’, and aggregate abstractions. At the present time, for example, any individual developing economy or any individual ETNC may well still predominantly exhibit the features of one of the two previous waves.

Table 1 Three waves of outward FDI

	First	Second	Third
Period	1960s to mid 1980s	Mid 1980s to 1990s	1990s to 2000s
Outward investing region/country group	Especially Latin America	Especially Asia	More geographically diverse country origins Resurgence of Latin America Inclusion of Russia and South Africa
Country examples, largest outward investors	Brazil, Argentina, Singapore, Malaysia, Venezuela, Philippines, Hong Kong, Korea, Colombia, Mexico, India	Hong Kong, China, Taiwan, Singapore, South Korea, Brazil, Malaysia	Hong Kong, Taiwan, Singapore, Brazil, South Africa, China, Korea, Malaysia, Argentina, Russia, Chile, Mexico
Destinations	Mainly other developing countries in same region	Mainly developing countries, but also to more distant locations, including developed economies	Increasingly global (Knowledge-intensive) services mainly regional destinations Mature sectors increasingly also into developed economies
Types of outward FDI	Primary sector Small-scale manufacturing	Into developing: primary sector, difficult-to-trade services (finance, infrastructure) Into developed: mature, cost-competitive industries (automotives, electronics, IT services), asset-augmenting investments	As 2nd wave, but with more going into developed economies
	Mainly horizontal	Horizontal and vertical	Horizontal and vertical
Ownership advantages	Home country specific	Home country and firm specific	Home country and firm specific
	Low cost inputs Production process capabilities Networks and relationships (e.g. ethnic) Organizational structure (e.g. conglomerates) 'Appropriate' technology, business models, and management	Same as 1st wave	Now also: Economies of scale Technological, managerial, and organizational capabilities Vertical control over factor/product markets
Motivation	Resource and market seeking	Into developing: resource and market seeking Into developed: market and asset seeking	As 2nd wave, but increase in asset seeking
	Asset exploitation	Asset exploitation Minor asset augmentation	Also asset augmentation Market power enhancing (especially natural resource related)
Policy regime	Import substitution	Export orientation	Schumpeterian
	FDI regulation	FDI coordination and facilitation	FDI promotion

Source: Dunning et al. 1996, 1998, Lall 1983, Chudnovsky and Lopez 2000, Andreff 2003, UNCTAD 2006, plus own revisions and additions, particularly the third wave.

3 Strategic Drivers of OFDI from Emerging Economies

This section discusses the strategic drivers of OFDI from emerging economies and how the drivers have varied over the course of the three waves. It takes its point of departure in the motives framework advanced by Narula and Dunning (2000), Cantwell and Mudambi (2001), Gammeltoft (2006), and Rasiah (2001) but with further motives that have evolved to drive cross border investments. These strategic drivers are considered important for home governments to understand so as to be able to provide effective support for their businesses relocating operations abroad.

(# natural resource, market, labor, value chain control, financial incentives, technology)

3.1 Natural Resource Seeking

The natural resource seeking motive of TNCs has remained important among TNCs from the emerging economies investing abroad. UNCTAD (2006, p. 161) reported that a third of the 30 largest mergers and acquisitions (MAs) in the primary sector over the period 1995-2005 were in the crude petroleum and natural gas industry. Government involvement has been particularly strong in the pursuit of natural resources when involving strategic natural resources.

Soaring prices since 2005 has driven the rapidly growing economies of China and India aggressively to seek supplies from Central Asia and Africa. China's expansion into extracting petroleum and natural gas began to grow strongly from 1993 when it began to experience a net trade deficit. Home governments from the emerging economies have been the prime movers of oil-based OFDI. The state owned TNCs of China National Petroleum Corporation (CNPC) and China National Offshore Oil Corporation (CNOOC), Oil and Natural Gas Company (ONGC) from India and the Turkish Petroleum Corporation (TPAO) enjoy strong government support in exploring and producing petroleum and natural gas in other developing economies for export to their own economies.

The Brazilian and Chilean state-owned companies of Petrobras and ENAP respectively have also invested in West Asia to seek oil and natural gas supplies. Between 2004 and mid 2007 Brazilian owned Petrobras invested US$4.4 billion to mine coal, oil and natural gas in Nigeria, United States, Argentina and Portugal (FDC, 2007, p. 11). Malaysia's Petronas has petroleum mining interests in Iran, Egypt, Vietnam, Philippines and Chad. South African TNCs seeking oil and natural gas tended to only operate in Africa.

High rents from soaring oil and gas prices have even attracted TNCs into highly risky locations. For example, Malaysia's Petronas invested strongly to explore and produce oil in Sudan and Chad – both countries are classified among the high risk countries by the United Nations (see Patey, 2006; ECOS, 2006; cited in UNCTAD, 2006, p. 161). Chinese Oil firms have invested strongly in oil and natural gas exploration and production in Angola and Sudan – both countries are endowed with poor infrastructure. Chinese firms have also won concessions to explore oil in the Mannar region in Sri Lanka.

The most aggressive home government pursuers of oil and gas mining rights from the emerging economies – i.e. China and India – compete directly in some bids while collaborating in other bids. Chinese firms won the concessions to mine oil in the prized oilfields of Kazakhstan beating off competition from an Indian firm in 2007. The Chinese government, through its three national oil firms, has an explicit policy to expand its oil mining rights abroad. Among its strategies include adapting its approach to meet host-government conditions. Indeed, the Chinese state firms in Angola and Sudan have a policy to train local personnel from those countries. After failing to win the competition on bids against Chinese firms the Indian government announced plans in 2007 to strengthen their own approach to attract oil-producing countries to offer its state company favorable mining rights.

Chinese and Indian oil firms have also collaborated to reduce cut-throat competition in the industry. For example ONGC Videsh of India and Sinopec of China jointly bought a 50 percent stake in American owned Omimex de Columbia in 2006 (China Daily, 2006: 1), and China's CNPC and India's ONGC announced on December 20 2006 that they had won a joint bid to acquire 37 percent of Petro-Canada's stake worth US$573million at the al-Furat oil and gas fields in Syria (Mathaba.Net, 2006, p. 1).

In metals, Anglo Gold, Illova Sugar, Impala Platinum, Metroex, Randgold Resources and Sasol have acquired state-owned mining firms following privatization in Africa. Brazilian owned Colompanhia Vale do Rio Doce (CVRD) expanded from 2002 to mine and smelt iron ore and pellets in Latin America, Africa, Asia and Europe (ECLAC, 2006). CVRD also invested US$1.2 billion in Mozambique to mine minerals and metals in the same period. CVRD also acquired INCO from Canada in 2007 for US$16.7 billion (Sauvant, 2008: 3). Hindalco invested in Australia to smelt aluminium and copper for firms in India, China, Saudi Arabia and Taiwan (see UNCTAD, 2006, p. 162), and bought Novelis in the United States in 2007 for US$6 billion (Sauvant, 2008, p. 3).

3.2 Market Seeking

By and large TNCs from the emerging economies still use the two approaches used by firms from developed economies seek market access, *viz*., direct production and sales or to access third markets through preferential trade access. Home governments have not only assisted firms from the emerging economies in their relocation process but also engaged in bilateral negotiations in reduce red tape.

Firms such as Hyundai from Korea, Sime Darby from Malaysia and Castle Beer from South Africa have acquired existing firms or invested in new plants abroad to access markets abroad. Hyundai assembles and sells cars in North America, Europe, India, China, Thailand, Indonesia and Malaysia. Sime Darby – through the acquisition of palm oil processing plants from Unilever in Rotterdam by Golden Hope, and the setting up of such plants in India and China – sells processed palm oil in these countries. The Taiwan Semiconductor Corporation (TSMC) has sales outlets in New York. Castle Beer spread into many parts of Africa by acquiring previously state owned breweries to supply domestic and regional markets. Included in this category is the broader markets integrated within regional trading arrangements. For example the creation of regional trading arrangements such as the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA), the North Atlantic Free Trade Area (NAFTA) and the European Union (EU) has expanded further common markets. For example, automotive firms – irrespective of ownership –enjoy preferential access to export components and parts throughout the ASEAN Industrial Cooperation (AICO) scheme.

Another set of firms where scale economies have not been important – e.g. software – has also witnessed a strong penetration of operations by emerging economy TNCs in both developed and developing economies. TCS, Wipro and Infosys have expanded into both the developed large market of United States as well as the smaller markets of Malaysia and Singapore.

The conditions involving the relocation of retailers seeking market access require an understanding of host-country regulatory environment. It will help home governments to provide through their embassies such information. Because supermarkets are engaged in sales in domestic markets some host-governments typically impose conditions that prevent total foreign ownership. In Malaysia *Bumiputera* equity requirements are stipulated as conditions for investing in sectors where domestic sales exceeding 20 percent of output (Chee, 1986; Jomo, 2003).

In some cases relocation decisions are based on using particular sites to access third country markets. Although much of the generalized system of preferences (GSP) were removed following the formation of the World Trade Organization the introduction of 'everything but arms' clause by the European Union and the bilateral trading arrangement by the United States, Japan and Canada has offered privileged access to their markets from least developed countries. Hence, China has become the largest investor in garment manufacturing – specializing on cut, manufacture and trim (CMT) operations – in Cambodia, Lao, Lesotho, Madagascar with the actual target being exports to North American, Europe and Japan (see UNCTAD, 2007; Rasiah, 2006). There is also sizable investment into garment manufacturing from Taiwan, Hong Kong, Korea, Singapore, Malaysia and Mauritius into these countries to access the developed markets.

In the latter mode of entry some home governments have played a crucial role to ensure that national firms provide benefits abroad through training and observance of labor standards: e.g. Malaysian, Taiwanese, Korean and Singaporean offer training to local employees in their garment firms (Rasiah, 2007). Such developments have been important to reduce local pressures and claims of exploitation by local pressure groups.

3.3 Labor Seeking

TNCs from Taiwan and Korea began a careful strategy with the assistance of their governments to relocate low value added labor-intensive manufacturing operations in other developing economies as rising production costs has encouraged upgrading into designing and other higher value added activities in their home sites. China and Southeast Asia have become important destinations, especially from Malaysia and Thailand in the 1980s to Vietnam, Indonesia and Philippines from the 1990s.

Whereas in the United States the enactment of customs items 806.3 and 807.0 - that lowered the value added tax on labor-intensive exports - helped the decomposition and relocation of labor-intensive low value added items to low cost sites (see Scibberas, 1977; Rasiah, 1988) the withdrawal of the generalized system of preferences (GSP) and the floating of the New Taiwan Dollar, Won and the Singapore dollar following the Plaza Accord of 1985 applied the pressure for the relocation of low value added assembly and processing activities to neighboring economies. Low value added firms from Singapore, Taiwan and Korea continue to have manufacturing operations in Malaysia and Thailand, but the focus has shifted more to the low cost countries of China, the Philippines, Vietnam and Indonesia. ASE, Acer and Chunghwa Picture tubes from Taiwan, and Samsung and LG Electronics from Korea are some examples of firms that relocated operations to low wage sites in Southeast Asia and China to lower manufacturing costs.

Although the Taiwan government only approved officially OFDI to China from 1991 labor-intensive segments of manufacturing had already begun to be redeployed across from the Island to mainland China from the 1980s through Hong Kong (Rasiah and Lin, 2004).

Smaller TNCs such as Eng Technology and Atlan from Malaysia relocated operations in China and Philippines, and Indonesia respectively following rising wages and the evaporation of labor supply in Penang (Rasiah, 2002). Indeed, in addition to growing demand abroad these firms reported in 2000 that much of their manufacturing had been relocated out of Malaysia owing to labor scarcity. Malaysia's Ministry of International Trade and Industry facilitated the relocation of these firms by coordinating the process.

Where security, customs and other legal issues have been an issue when involving the less developed economies home and host government coordination has been instrumental in clearing such obstacles. Typically host governments have opened export processing zones to provide these services more effectively so that OFDI can start production operations to utilize low wage workers. Korean, Taiwanese, Chinese, Malaysia and Singaporean OFDI to Philippines, Vietnam, Cambodia and Bangladesh enjoy these benefits from relocating there (UNCTAD, 2003).

3.4 Value Chain Control Seeking

The dynamics of coordination and control has taken on new dimensions since large retailers started to coordinate and drive quality improvements involving the activities of their suppliers. Unlike owning production these malls simply impose conditions that require participants in their supplier chains to meet a continuous set of demands.

Whereas value chains in horticulture commodities are increasingly driven by retailer TNCs from the developed economies, conglomerates have evolved from the emerging economies with a wide ranging structure. The increasing significance of supermarket chains on the production and distribution of vegetables was initially pointed out by Dolan and Humphrey (2000) and Rasiah (2004). Supermarkets have increasingly taken over control in the value chains involving bananas, melons, vegetables and milk products from producers such as Del Monte and Chiquita. In vegetables, small producers who have not been able to meet the stringent and frequent improvements in quality standards and delivery times have fallen out from these chains (Dolan and Humphrey, 2000). In fruits, instead of having Del Monte and Chiquita the products are increasingly carrying the brand names of Tesco, Safeways, Sainsbury and Albert Heinz supermarkets.

Supermarkets from the emerging economies such as Giant and Parkson have taken on such roles to control similar value chains from their sales outlets throughout Southeast Asia and China. These firms are increasingly adopting the pattern of taking control over the production and distribution of merchandise, including the brand names of these items. The actual production of the goods have either been outsourced but supermarkets now exercise control over the chains by defining the procedures, standards and other requirements that suppliers are increasingly required to provide.

3.5 Financial Incentive Seeking

The relocation pattern of OFDI of the emerging economies suggests that incentives remain important. However, there is also evidence to suggest that both host and home governments end up providing incentives more than what is necessary (Rasiah, 2005). Some of these problems have cropped up because of TNCs' efforts to optimize profits from their bargaining relationships with governments. Doraisami and Rasiah (2003) showed evidence of TNC declaration of profits falling sharply once tax holidays expire.

In the period 2003-2005 the tax havens of Cayman Islands (42.1%) and British Virgin Island (10.0%) accounted for the largest and 3rd largest OFDI from China (Morck, Yeung and Zhao, 2007, p. 5). Hong Kong (27.9%) enjoyed the second highest redeployment in the same period. Morck, Yeing and Zhao (2007) note that a lot of such outflows were targeted at tax benefits from being classified as foreign direct investment.

TNCs from some of the emerging economies also enjoyed tax exemptions from income remitted back. For example, the Malaysian government offered tax breaks in 1991 in the form of tax abatement on income earned abroad and from 1995 (apart from banking, insurance and sea and air transport businesses) to Malaysian firms investing abroad (Ragayah, 1999, p. 470).

Where the target is fiscal incentives home governments should coordinate OFDI policies taking account of host-site incentives and where possible establish or strengthen investment and incentive coordination and profit repatriation treaties that are favorable. The governments of Singapore and Malaysia are actively engaged in such negotiations and coordination when involving OFDI to Cambodia, Lao, Vietnam and Myanmar.

3.6 Technology Seeking

Several TNCs from the emerging economies have established horizontal relationships to either share technology through mergers or acquire outright assets from the developed economies located in superior high tech infrastructure. Home governments have played important roles to assist their national firms to negotiate deals related to mergers and acquisitions purely driven by efforts to access technology.

Samsung Electronics from Korea and TSMC from Taiwan invested into R&D plants in the United States to seek technological support from the R&D labs, and human capital from universities and firms. Samsung Electronics has also started the construction of a large wafer fabrication plant in India in 2007 to take advantage of its huge human capital endowments in engineering – the reasons are similar to IBM's, Intel's and Microsoft's expansion into India. Indian software engineers have played an important role in Samsung's decision to fabricate 12-inch wafers in India.

Interestingly technology-driven mergers and acquisitions (MAs) have been a major channel of OFDI from the emerging economies. Asia enjoyed the highest share of MAs among the emerging economies over the period 1987-2006. A significant share of such brownfield investment have involved the acquisition of high tech firms from the developed economies with the aim of accessing both the technological and marketing benefits – e.g. Chinese Lenovo's purchase of IBM's computer division. Lenovo acquired the personal computer division of IBM for US$1.75 billion in 2005 (see Sauvant, 2008, p. 3).

Governance issues in developed markets have also driven a number of TNCs from the emerging economies to acquire existing corporations as well as seek patent registration abroad. Stringent regulations in certain industries – e.g. the United States Food and Drug Administration (USFDA) in pharmaceutical and food-based industries – has encouraged TNCs from emerging economies to file patents as well as acquire foreign TNCs already enjoying such rights in the developed economies. Indian, Chinese and Brazilian firms have been targeting American firms to access both intellectual property rights as well as markets.

Indian TNCs have also been active in takeovers in Europe. For example, Lupin entered into an agreement with Belgium's Artifex Finance to acquire a 51 percent majority stake in Dafra Pharma giving the Indian firm access to 25 African countries. Before being majority acquired itself by a Japanese company in 2008, Ranbaxy acquired Belgium's Ethimed, Romania's Terapia and GSK's Italian unit in 2006. Dr Reddy's bought out Germany's Betapharm and Aurobindo Pharma acquired UK generics firm Milpharma in 2006.

In some emerging economies government has encouraged firms to internationalize operations to acquire technological capabilities by giving them incentives. For example, the Malaysian government introduced incentives in 2003 to encourage firms to acquire foreign owned high tech firms from abroad (MASSA News, June 2005; cited in Ariff and Lopez, 2008, p. 21). Such government support through financial subsidies and incentives also included a MYR1 billion allocated to assist local entrepreneurs to invest abroad (Tham, 2006, p. 10).

The Indian, Brazilian, Malaysian, Korean, Chinese and Taiwan governments have actively encouraged their firms to seek technology from abroad, including through mergers and acquisitions. Home government policies have varied from simply approving such acquisitions to vetting, monitoring and ex-post appraisals to ensure that the technologies sought were appropriated. The latter is particularly undertaken using experts carrying tacit and experiential knowledge, especially when involving incubated or state-sponsored or subsidized firms. China's Lenovo's acquisition of IBM's personal computer division and Malaysia's Proton's acquisition of British owned Lotus involved considerable assistance from home governments.

Overall it can be seen that more synergies can be appropriated from OFDI when home governments understand the motives behind their relocations. Although macroeconomic conditions are still important the pursuit of certain resources

4 Implications for Home Country Policies

FDI requires capital and foreign exchange, on both of which developing and emerging economies are typically relatively scarce. Nevertheless many emerging economy governments today have devised policies to actively support the internationalization of domestic firms. In countries such as China and India not only central but also regional and local governments actively promote the internationalization of their firms.

Once the macroeconomic conditions have been addressed to avert the debilitating effects of capital flight home government policies on FDI from the emerging economies can benefit enormously from an understanding of the drivers behind relocation. In the following we discuss the policy implications that can be drawn for home country policies from the ODFI patterns of emerging economies discussed in the previous sections.

The policy position towards FDI has generally shifted from being more skeptical in the 1970s enforcing a range of conditionalities, which in turn influenced firm-level internationalization patterns and strategies, to a much more accommodating position from the 1990s onwards. These latter policies emphasized investment promotion and the provision of the best possible framework conditions for foreign investors, including infrastructure provision, fast track bureaucratic procedures, and different forms of subsidy and tax alleviation schemes.

Today, the most effective set of government policies should take account of the reasons driving the internationalization of economic activities. Put simply home governments should know why their businesses are relocating operations abroad before they can actually frame policies to assist them.

On the positive side home governments promote OFDI to seek new opportunities to expand profits and market shares for their firms. On the negative side home governments are often concerned with its potential impact on domestic jobs, supply of capital and balance of payments. The typical macroeconomic assessments that investment advisors provide should just be the first step in the screening process for encouraging as OFDI is likely to face high political risks, transaction costs and inflation when driven by particular motives such as oil and gas: oil and gas rich Sudan, Angola, Chad and Nigeria are easily among the high risk economies. Nevertheless both home and host governments can play critical roles to reduce such risks so as to stimulate the appropriation of more synergies once the assets of foreign direct investors are already in operation.

Hymer (1960) had provided some of the most convincing arguments explaining the growth of multinationals – i.e. to take advantage of oligopolistic markets with redeployments to take stock of the relative benefits offered by host-sites. Lall and Streeten (1977) provided a detailed and incisive account of the rationale for relocation benefits and obstacles developing economies face from the activities of multinational corporations. Dunning (1978, 1981) provided arguably the most exhaustive theory to understand OFDI from home governments calling it the eclectic framework of ownership, location and internalization (OLI). Rugman and Jonathan (2008) then explained ownership advantages by differentiating country- and firm-specific advantages. Those elements were picked up by motives by Narula and Dunning (2000), Cantwell and Mudambi (2001) and Rasiah (2001).

Hence, the focus here is on how home governments should respond to OFDI already in operation as well as those seeking to internationalize by focusing on motives. Whereas Dunning (1973, 1988) provided the early dissection of motives, in the following we identify in greater detail a range of additional motives that have driven cross border relocations (for discussions of investments motives see Narula and Dunning (2000), Cantwell and Mudambi (2001) and Rasiah (2001); for motives specifically related to investments in international R&D see Gammeltoft (2006)).

(# promotional strategies, investment coordination, striking bargains, leveraging(#), sustainability)

4.1 Promotional Strategies

Governments – both central and local – in the emerging economies can coordinate better their promotional strategies by pooling the investors, listing them with their capabilities, and promoting their interests using a website as well as through their embassies abroad and trade ministries located in foreign countries. This strategy has worked well in Malaysia, Singapore and Chile.

Whereas developed countries amended their customs provisions to export labor-intensive activities to low cost sites by lowering the value added tax on imports of the assembled and processed goods back (see Scibberas, 1977; Rasiah, 1988), home governments from the emerging markets such as Malaysia offer fiscal incentives by exempting taxes on incomes remitted back. This incentive on the one hand, has stimulated the relocation out of labor-intensive stages that are no longer competitive in Malaysia thereby reducing the demand for imported unskilled foreign labor. On the other hand, it has encouraged firms to remit their profits back rather than directing them elsewhere.

In addition, the Singapore government has promoted aggressively since 1989 proximate regions such as Johor in Malaysia and Batam in Indonesia for the relocation of its and other foreign enterprises with higher value added operations in Singapore. In addition to actively promoting their relocation the Singapore government also sought assurances from both the local and central governments' favorable treatment of their businesses (MIDA, 1991; Rasiah, 1994).

4.2 Investment Coordination

Investment coordination will be necessary to streamline incentive and grant packages offered to TNCs from the emerging economies by competing host-governments on the one hand and outlays by the TNCs on the other hand. The governments of Singapore, Malaysia, South Africa, India and China actively encourage their OFDI to expand their operations in certain markets - Southern Africa by South Africa, China and India, and Southeast Asia by Singapore, the entire South economies by Malaysia, and where strong reserves of oil and natural gas is available by China and India. In Malaysia for example, the government has introduced an explicit policy to promote OFDI and has negotiated investment guarantees with 64 countries (Zainal, 2005; see also UNCTAD, 2006, p. 216).

Whereas official policy evolved to promote OFDI from countries such as Singapore and Malaysia, in some countries restrictions on OFDI were gradually removed. In South Africa – which accounts for the highest OFDI from Africa – restrictions were imposed to invest only in Lesotho, Namibia and Swaziland before 1996 (UNCTAD, 2006, p. 207). Investment ceilings were established from 1997 until 2004 when they were completely abolished. The Korean government only allowed OFDI to secure raw material supplies and to facilitate exports until 1968 when OFDI was permitted. However, severe restrictions were maintained to prevent capital flight. The liberalization of OFDI increased from 1981 as Korean firms began to expand into global markets (UNCTAD, 2008, p. 208).

Investment coordination is also necessary to reduce undue and sometimes xenophobic responses by host-governments and pressure groups. Takeovers of firms in the developed economies by TNCs from the emerging economies have has raised questions related to national security, fair practice and the risk of "losing technology to foreign rivals". The Chinese State owned CNOOC's attempted takeover of the American owned Unocal in 2005 was blocked after strong political opposition. Lenovo from Beijing acquired IBM's personal computer division in 2005 triggering strong investigation in the United States before the deal was actually approved (UNCTAD, 2006, p. 242). Mittal Steel's merger with Arcelor in 2005 met with stiff opposition before the deal went through (UNCTAD, 2006, p. 245). The governments of France and India were strongly involved in the background in this deal. # Other examples are…

It will help for governments to collaborate especially when dealing with South-South investment flows. Exchange rate fluctuations and government restrictions on the currency flows can have a bearing on OFDI flows. Areas of collaboration can include the installation of preventive financial instruments to restrict capital flights involving large share investments into host-country enterprises (see Yilmaz, 1997; Stiglitz, 1998; Rasiah, 2000. Chile has in place a tax on capital exiting within one year of entry (Agosin, 1998). Malaysia introduced capital controls in 1998 to coordinate a Keynesian-style recovery from the Asian financial crisis (see Rasiah, 2000). Hence, stronger collaboration among and between home and host countries will help reduce the risks associated with capital flows and other provide better information flow.

Within the South Commission and the auspices of UNCTAD and UNIDO, efforts were made to establish stronger collaboration between members of the South to avert the disastrous impact of market power that arises from asymmetric power relations. Existing frameworks for investment coordination still continue to generate little consensus because of concerns caused by asymmetric power structure between OFDI and the recipient economies. The rapid expansion of OFDI from the emerging economies can offer a different perspective towards coordinating foreign investment flows from emerging economies if coordinated through the aegis of the South Centre (formerly the South Commission).

Bilateral government to government investment coordination *a la* the old format used by the developed economies still dominates the execution of investment deals from the emerging economies. The asymmetric power structure in government to government negotiations on investment coordination has been a major reason why critics consider such bilateral deals as unfairly benefiting the richer economies.

However, given the problems of information it will help for governments to broaden cooperation among and between home and host governments so that OFDI flows can be stimulated further. Home and host governments from the developing economies should use their relational links established under the South framework to facilitate further investment flows.

4.3 Striking Bargains

Whereas endowments – both inherited and created – have been the key driver of TNC redeployment patterns, home and host governments have often played an important role in promoting and coordinating the relocation process. Most of the bargains have involved TNCs and host governments. The Warren-Murray debate on TNC-governments bargaining is among the earliest arguments about the pattern of relocation and benefits developing economies could enjoy. Warren (1975; 1980) made the point that states are in a better position to condition TNCs activities to meet their ends as the rivalry between TNCs has become more intense. Murray (1975) took the opposite position that states are in a weaker position owing to the underdeveloped and uncoordinated nature of relations between them when compared to relations between TNCs. This debate emphasized the dynamic nature of the two formations, i.e. TNCs and states. The former is a less complex firm organization – spread across borders and more easily managed than the latter, which is characterized by a complex set of relationships, mechanisms and conduct. Relations between and among them are not monolithic. Rivalry between TNCs often strengthens the position of government. The converse can also happen as rivalry between states raises the bargaining power of TNCs.

Under circumstances of multilateral cooperation, the capacity of individual governments to leverage effectively to extract maximum gains from TNCs will be high. However, conditions and the asymmetries between TNCs (e.g. market shares, technological capabilities and source of national support) and governments (e.g. social conditions, labor market conditions, infrastructure (basic and high tech), and political stability) differ and it is extremely difficult to predict TNC-government relations. However, TNCs enjoy greater autonomy and hence have greater control over their conduct because of domestic pressures government face from the different constituencies that they represent. Moreover, TNCs often enjoy support from their own national governments. Apart from companies seeking equity investment aggressively, ordinary shareholders generally do not shape the activities of TNCs. The chief executive and top management themselves often hold significant number of shares – aimed at resolving principal-agent problems - and hence effectively control the operations of most TNCs. Hence, TNCs rather than governments enjoy greater autonomy.

Information asymmetry, variances in technological and market strength of firms, and endowments enjoyed by economies, and the greater complexity of relationships that define the conduct of governments make bargains and outcomes difficult to predict. Nevertheless, an understanding of the circumstances under which TNCs and governments bargain, and the specific objective sought by them – e.g. relocation or industrial upgrading involving existing operation – will help improve the capacity of both TNCs and governments to harness better benefits.

4.4 Leveraging

Home governments from the emerging economies have strengthened their bid to invest abroad by pooling and organizing carefully the range of benefits that OFDI participants can provide at host-sites. Some home governments such as Singapore and Malaysia display leveraging strategies to harness better returns. These initiatives are largely handled by individual home governments seeking to maximize benefits for OFDI from host economies. Capitalization, governance capabilities and the record of having operated export-processing zones successfully have often been used by these TNCs to win bids to operate them abroad.

Home governments have also been directly involved in the formation of companies that have sought land leaseholds from host-governments to promote export-processing activities. For example, Temasik Holdings acquired leasehold rights to the EPZ in Batam (Indonesia) and the high tech park in Cyberabad (India) packaging its excellent record in attracting FDI with actual promotion of these locations to attract foreign direct investment. With the active encouragement of the Malaysian government, Maascorp was formed in 1992 to promote South-South investment and trade. Among the investments it has made include the acquisition of leasehold rights to an EPZ in Danang. # E.g. Singapore industrial park in China

It will certainly help home governments organizing foreign EPZs to understand the motives behind why particular firms are seeking relocation abroad as one key role they play has been on attracting OFDI. It will be unlikely for such TNCs to attract large retail outlets into EPZs as these areas are often cut off from the principal customs areas from where the normal residents live. This will also apply for firms seeking natural resources, which is determined by the location of the minerals. TNCs relocating abroad to seek labor, technology, incentives and control over value chains are the most widely sought for relocation at EPZs.

4.5 Sustainability

TNCs have long included corporate social responsibility (CSR) as an integral part of their activities at host-sites following the adoption of codes of conduct by the United Nations Centre for Transnational Corporations (UNCTC) which has since been absorbed under UNCTAD and pressure groups in both home and host countries (see Jenkins, 2001; Rock, Murphy, Rasiah, Seters and Managi, 2008). Much of these activities appear to have emerged essentially to solve problems caused by TNCs. Since the emergence of global warming, governments, pressure groups and firms in the developed economies have increasingly encouraged the introduction of CSR practices in firms investing in the developing economies. These practices have varied owing to the different motives TNCs have placed when seeking relocation.

Whereas home governments can help coordinate better CSR activities, it will also help allay fears of negative consequences for host governments and other stakeholders of takeovers. Host institutions often dislike takeovers of large public utilities and parastatals because of its potential impact on retrenchments and over the issue of losing control of strategic and important assets to foreigners. In some cases non-governmental organizations see kickbacks involved in the takeovers so that the objective of providing a service to take account of public utility characteristics is compromised for profits. Attempts have been made by the members of the ASEAN Free Trade Area (AFTA) process to include trade unions and other worker representatives in investment deals but trade unions have complained that their role have been reduced to passive participation. For example the attempt by Mittal Steel to takeover 40 percent equity in Krakatau Steel in 2008 brought huge demonstrations from the unions in Indonesia. Similarly civil society members in Andhra Pradesh protested in 2006 over the privileges (that included differential water rates favoring companies over the residents) given to the high tech firms locating in Cyberabad, which is leased to Singapore state owned Temasik Holdings.

Because TNCs from a number of the emerging economies carry with them the South tag efforts should be taken to address the genuine concerns of power squeeze by TNCs so that a more acceptable agreements can be established between these countries. Interviews with primary industry and planning officials of Sudan, South Africa, Indonesia, Namibia and Cambodia suggest that the conduct of TNCs from China and India in Africa may have improved to honor national considerations such as the hiring and training of local employees.[2]

[2] The interviews were carried out on 11-12 March 2007 at an UNCTAD meeting in Geneva.

5 Conclusions

A deeper probe into the features of outward foreign direct investment from emerging economics (OFDI) reveals recent shifts in investment motives, ownership modes, sectoral composition and typical destinations; shifts sufficiently large to warrant the proposition of a new and qualitatively different 'third wave' of OFDI, different from the two previous waves depicted in the received literature. We outlined the features of such a wave.

The paper further examined the strategic drivers of OFDI. Understanding better the underlying drivers can assist home governments to construct more effective policies and coordinate better existing operations of their national firms abroad. It is obvious that much of the theorization of the leading path creators such as Dunning (1981) remain important in explaining OFDI from the emerging economies, which holds even where the FDI from the emerging economies is targeted to the developed economies.

Although UNCTAD (2006) reports from a 2005 survey that markets and natural resources were the prime drivers of OFDI, the evidence here suggests that all the key drivers of OFDI are important, viz., markets, natural resources, labor, technology, financial incentives and control of value chains. Besides, because the specificity of each of the drivers is critical home governments need to pay attention to the motives and activities of their own TNCs rather than simply the aggregate picture provided by global surveys.

The surge in OFDI from the emerging economies has given a new dimension to the arguments on regulation. Contrary to the official government prescriptions– i.e. to liberalize investment governance structures - many home governments have acted to regulate strongly OFDI from the emerging economies. Although narrow national interests have often driven decision making it is important for home governments to consider the broader interest of promoting capital flows to ensure the long term development of economies.

Given the growing significance of OFDI from the emerging economies it will help if the home and host governments involved seek to establish common and specific collaboration platforms to raise information flows as well as coordinate better the negotiations and execution of investment projects. Being members of the South group and as latecomers having viewed the experience of OFDI flows from developed economies both home and host governments could discuss these issues with less asymmetric problems. A common but loose multilateral investment framework among these economies (but with room for flexibility) could be better achieved among the South economies than the previously failed efforts at the global front. While investor interest will remain the key driver, any common agreement should incorporate elements of corporate social responsibility and national interests. Instead of reinventing the wheel the codes of conduct adopted originally by the United Nations should be the starting point of such deliberations.

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